24 September 2007

The Chairman
Australian Accounting Standards Board
Level 7, 600 Bourke St
Melbourne VIC 3000

Dear Sir/Madam

IFRIC DRAFT INTERPRETATION D22
Hedges of a Net Investment in a Foreign Operation

We are pleased to have the opportunity to provide our comments to the proposals contained in IFRIC Draft Interpretation D22. The draft Interpretation addresses some practical issues in the application of hedge accounting to foreign currency risk arising from investments in foreign operations. We support the guidance included in the draft interpretation and our comments to the specific issues are detailed below.

(a) Nature of the hedged risk for which a hedging relationship may be designated

We are pleased to see the IFRIC clarify what qualifies as a risk in the hedge of a net investment in a foreign operation and in so doing address the potential inconsistencies that could result from the different views on the eligible risks. In particular, we support the view that the translation of currency for presentational use does not represent a 'hedgeable' economic risk and should not qualify for hedge accounting.

Paragraph 10 of the draft Interpretation states that "Hedge accounting may not be applied to the foreign exchange differences arising between the functional currency of the foreign operation and the presentation currency of the parent entity". This is true where the functional currency of the parent entity is different from the presentation currency. If the presentation currency and the functional currency of the parent entity are the same, the exchange rate being hedged would be identified as that between the parent entity's functional currency and the foreign operation's functional currency. Accordingly, we would propose a minor amendment to paragraph 10 to include a statement that this requirement applies where the functional currency of the parent entity is different from its presentation currency.

The guidance provides flexibility in allowing a direct or indirect parent entity to undertake a net investment hedge, with the caveat that an exposure to foreign currency risk arising from a net investment in a foreign operation may qualify for hedge accounting only once. Therefore, if the same risk is hedged by more than one parent entity within the group only one hedge relationship will qualify for hedge accounting in the consolidated financial statements. We agree with this condition.

(b) Where in a group the hedging instrument can be held

We support the proposal that the hedging instrument can be held by any subsidiary or parent entity within a group, regardless of the entity's functional currency, on the following basis:

- The proposal is consistent with IAS 39; and
- Where the instrument is held within a group should not impact whether the hedge is effective. As stated in the guidance, hedge effectiveness is calculated by reference to the functional currency of the parent entity against whose functional currency the hedged risk is measured and not the functional currency of the subsidiary holding the instrument.

Please contact me on +61(3) 9634 6470 if you need any further explanation on any of the comments made in this submission.

Yours sincerely,

David Anderson
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